

**PACE (PAKISTAN) LIMITED (PACE)****RATINGS (APRIL 2008)**

PACE (PAKISTAN) LIMITED

ENTITY	NEW	PREVIOUS
Long Term	A+	A+
Short Term	A1	A1
TFC		
<i>Secured, listed</i>		
PKR 1,500mln	AA-	AA-
PROPOSED SUKUK		
<i>Secured, privately placed</i>		
PKR 2,000mln	AA-	-
OUTLOOK	Positive	-

FINANCIAL DATA

PKR (mln)

	31-Dec-07*	30-Jun-07
Total Assets	5,020	3,806
Equity	3,315	3,175
Turnover	93.9	612.6
Gross profits	8.9	231.5
Net Income	143.6	500.1
Gross Margin	9.5%	37.8%
ROE	4.4%	21.4%
Net Debt / Equity	6.8%	n.m.

*Based on six months results.

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PROFILE

- Pace (Pakistan) Limited (Pace), incorporated in 1992, was acquired by First Capital Group in 1998. The company has been listed on Karachi and Lahore stock exchanges since February 2007. Pace has a diverse shareholding pattern. Apart from First Capital Group (52%), Millennium Global High Yield Fund Limited (24%) is the other major shareholder of the company. First Capital group has interests in diversified businesses including financial services, telecom, insurance, media and real estate.
- The Board of directors of Pace comprises eight members. Mr. Salmaan Taseer – the CEO of Pace and a key individual behind First Capital group – is a chartered accountant having senior management experience of over four decades. He is assisted by a team of qualified and experienced professionals.

RATING RATIONALE AND KEY DRIVERS

- The ratings of Pace reflect its strengthening business profile, a result of the management's well articulated business strategy. The ratings also take into account the company's sound risk absorption capacity emanating from its low leveraged capital structure coupled with its adequate level of coverages. At the same time, the company continues to strengthen its niche of developing and managing concept shopping malls while embarking on new avenues to diversify its portfolio of projects.
- The ratings are assigned a positive outlook based on the company's plans to raise equity through listing of its shares on a Dubai stock market, which while improving overall financial strength of the company, is expected to enable Pace to tap potential business opportunities in the real estate sector, in turn, improving its performance. Nonetheless, while managing the financial risk at a lower level would be critical, inability of the management to effectively execute its business plans in a timely manner may negatively impact the ratings.

ASSESSMENT

- Pace, with handing over of its Gujranwala project, has completed four shopping malls by end-FY07. The company witnessed a significant improvement in gross margins mainly because of its new strategy of selling majority of a particular project towards the end of its completion to reap the benefits of surging prices. However, growth in bottom line remained a function of increase in surplus on revaluation of investment property that contributed substantially towards net profits. At the same time, despite a rise in earnings, ROE slightly came down due to enhanced equity base on account of issuance of new shares by the company during the year.
- To date, the company recognizes revenue on delivery of property to customers. Because of this policy, the company's reported revenues depict a volatile pattern, with periods in which no major projects are handed over showing nominal revenues, as observed during 1H FY08. Cognizant of this fact, the company is considering to revise its accounting policy to stage of completion, which would better illustrate the company's performance in a given period.
- Currently, Pace is working on various projects – shopping malls, a housing project, multi-use complexes, resorts, and hotels – on its own as well as through joint venture in the form of subsidiary/associated companies. Over the longer term, the company aims to explore potential business opportunities in real estate sector outside Pakistan mainly in developing countries, which is expected to diversify business risk associated with a particular geographical area. Meanwhile, the company would follow its strategy to expand its operations in all major cities of the country. As the management also intends to build a sizeable portfolio of investment properties, it is expected to generate a stable source of income in the form of rentals and capital appreciation gains.
- The company maintained its low-leveraged capital structure with total debt being less than 30% of the equity at end-07. However, recently, to finance its ongoing projects, the company has completed major borrowings of around PKR 4,000mln including an issue of foreign currency convertible bonds of US\$ 25mln. The company is also planning to issue a Sukuk of PKR 2,000mln by end-FY08. Despite the fact that these debt obligations would increase the gearing level, raising of new capital through listing on Dubai stock market coupled with quasi equity nature of foreign currency convertible bond would help the company in maintaining a sound capital structure.
- The company's cash flows relating to a particular project remain under stress prior to formal launch of the project due to initial investment in land and related development. However, once a project is launched, cash inflows in the form of advance payment and installments by buyers provide ample support towards overall requirements. Meanwhile, borrowings help to manage cash requirements necessary to complete a particular project. Despite the fact that cash flows depicted a volatile pattern, Pace, owing to low leveraging, has maintained its coverages at adequate levels. Going forward, though cash flows would remain under pressure on account of company's aggressive expansion strategy, the company is expected to manage its coverages at comfortable levels owing to its intentions to maintain a low-leveraged capital structure. Moreover, comfort can be drawn from investment properties held by the company with market value of more than PKR 1,610mln at end-07, which can be sold to generate liquidity in any contingency.

TFCs/SUKUK ISSUES

- Pace issued its first secured TFCs of PKR 1,500mln in Feb-08 for a tenure of 5 years. The profit payment is based on six months KIBOR plus 1.5% with no floor and cap. The principal repayment is in 6 semi-annual installments with first installment due at the end of 30th month (i.e., Aug 2010). The issue is secured by first pari passu charge on assets (movable and immovable) by way of equitable mortgage of immovable properties and hypothecation of movable assets with 25% margin.
- Pace intends to issue a privately placed Sukuk of PKR 2,000mln in the near term for a period of 5 years on diminishing musharakah basis. Profit is repayable at the rate of six months KIBOR plus 1.25% with a floor of 6% and a cap of 16.5%. The musharakah units are to be purchased semi-annually in six consecutive periods after a grace period of 2 years. The issue is secured by way of equitable mortgage over land of Pace Karachi multi-use project and first ranking hypothecation charge over all present and future assets of the project alongwith assignment of receivables of the company.

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